6. Corporate Social Responsibility (CSR)

As the term "CSR" is used continually, many complementary and overlapping concepts, such as corporate citizenship, business ethics, stakeholder management and sustainability, have emerged.

Corporate Social Responsibility is a process that is concerned with treating the stakeholders of a company or institution ethically or in a responsible manner. 'Ethically or responsible' means treating key stakeholders in a manner deemed acceptable according to international norms.

According to World Business Council for Sustainable Development "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large".

> *"**According to Mallen Baker** "CSR is about how companies manage the business processes to produce an overall positive impact on society."*

The Companies Act, 2013 which talks about stakeholders and integrating it with the social, environmental and economic objectives, all of which constitute the idea of a triple bottom line approach. It is also acknowledged in the Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises issued by the DPE in April 2013.

Beginning in the 1990s and carrying forward, three strong trends in CSR emerged, grew and continue with us to this day: **globalization, institutionalization, and strategic reconciliation.**

The Government of India in 1976 had inserted the term **"socialist"** in the preamble of country's constitution thereby committing itself to ensuring a development process which would be guided and spearheaded by the state. But the ground situation is now fast changing in India. Post 1991, there is increasingly a receding role of the state in the economic and social sphere. An increasing acceptance of CSR by large number of corporate, post liberalization can thus be seen in the context of the larger role being consciously carved for the private sector in an economy which was earlier largely controlled and managed by the State.

The Companies Act, 2013 *In India, the concept of CSR is governed by clause 135 of the Companies Act, 2013, which was passed by both Houses of the Parliament, and had received the assent of the President of India on* ***29 August 2013.***

The CSR provisions within the Act is applicable to companies with an ***annual turnover of 1,000 crore*** *Rs. and more, or a* ***net worth of 500 crore*** *Rs. and more, or a net profit of 5 crore Rs. and more.*

The Act encourages companies to ***spend at least 2%*** *of their average net profit in the previous 3 years on CSR activities.*

Business Responsibility Reporting

The other reporting requirement mandated by the government of India, including CSR is by the SEBI which issued a circular on **13 August 2012** mandating the top **100 listed companies** to report their ESG initiatives. These are to be reported in the form of a Business Responsibility Reporting as a part of the annual report.

SEBI has provided a template for filing the Business Responsibility Reporting. Business responsibility reporting is in line with the **NVG published by the Ministry of Corporate Affairs in July 2011.** Provisions have also been made in the listing agreement to incorporate the submission of Business Responsibility Reporting by the relevant companies.

The listing agreement also provides the format of the Business Responsibility Reporting. The Business Responsibility Reporting requires companies to report their performance on the nine NVG principles. Other listed companies have also been encouraged by SEBI to voluntarily disclose information on their ESG performance in the Business Responsibility Reporting format.

Companies Act, 2013, Clause 135

- CSR committee requirements A CSR committee of the board should be constituted.
- *It should consist of at least 3 directors out of whom at least 1 is an independent director.*
- This composition will be disclosed in the board's report as per sub-section (3) of section 134.
- The CSR committee shall: - formulate and recommend a CSR policy to the board, indicating the activities as specified in Schedule VII of the Act.
- Recommend the amount of expenditure to be incurred on the activities indicated in the policy.

The Nine principles of National Voluntary Guidelines are :

Principle 1 : *Businesses should conduct and govern themselves with ethics, transparency and accountability.*

Principle 2 : *Businesses should provide goods and services that are safe and contribute to sustainability throughout their lifecycle.*

Principle 3 : *Businesses should promote the well being of all employees.*

Principle 4 : *Businesses should respect the interests of, and be responsive toward all stakeholders, especially those who are disadvantaged, vulnerable and marginalized.*

Principle 5 : *Businesses should respect and promote human rights.*

Principle 6 : *Business should respect, protect, and make efforts to restore the environment.*

Principle 7 : *Businesses, when engaged in Influencing public, should do so in a responsible manner.*

Principle 8 : *Businesses should support inclusive growth and equitable development.*

Principle 9 : *Businesses should engage with and provide value to their customers and consumers in a responsible manner.*

Monitor the CSR policy regularly Tools, technical guidance and standards to be used :

- *Social return on investments (SROI)*
- *Global impact investing network (GIIN)*
- *ISO 26000: social responsibility*

Levels of Social Responsibility

A hierarchy of the extent to which business units discharge social responsibility is developed by R. Joseph Monsen.

Starting from the lowest level, there are four levels of hierarchy:

1. **Obeyance of the Law :** Managers feel they are discharging social responsibility by merely obeying the law.
2. **Catering to public Expectations :** Social responsibility goes beyond merely obeying the law. In addition to abiding by legal framework of the country, social responsibility also caters to public expectations from the business enterprises (for example, providing job opportunities, quality goods, controlling pollution etc.).
3. **Creation of Public Expectations :** At the highest level of hierarchy, managers not only cater to public demands but also set standards of social responsibilities and want the society to be benefited by those standards.

Implementation of CSR

In addition to profit making a company should earn goodwill, credibility and trust of society and customer. Both profits and credibility should go together will have scope for social and environmental care. In addition to salary, health and happiness of employees is enduring and generate extra loyalty from employees. The health of a company depends upon service and satisfaction of the people. Growth of a company take place of the interests of employees, customers, environment and the society is taken care.

The authority and responsibility to implement CSR rests with the top management through its CEO. The minimumexpected CSR are as follows :

1. ***Responsibilities Towards Employees :***
   - *(i) Full time suitable work to employees and job satisfaction.*
   - *(ii) Fair compensation and fringe benefits.*
   - *(iii) Job security of employees.*
   - *(iv) Training, development and promotions avenues.*
   - *(v) Good work environment in terms of safety and facilities.*
2. ***Responsibility to Customers :***
   - *(i) Product as per specified quality and quantity.*
   - *(ii) Fair price and taxation as per rules.*
   - *(iii) Consumer protection from warranty and safety.*
3. ***Responsibility Towards Government and Society :***
   - *(i) Payment of taxes and duties as per the prevailing rules.*
   - *(ii) Pollution and environmental care.*
   - *(iii) Participation and contribution to welfare of society.*
   - *(iv) Fair opportunity for employment to locals.*
4. ***Responsibility to Owners:***
   - *(i) Payment of dividend in proportion to shares.*
   - *(ii) To run the business efficiently, ethically.*
   - *(iii) Make use of local resources to achieve economy and satisfaction.*
   - *(iv) Ensure sustenance and growth of the company.*

In addition to above, company can contribute to natural calamity restoration process. It improves company's prestige and morale.

Corporate Governance and CSR

Corporate is a single word used for multiple components and working together and providing direction is governance.

A corporate is bound by various stake holders as shown in Fig. :

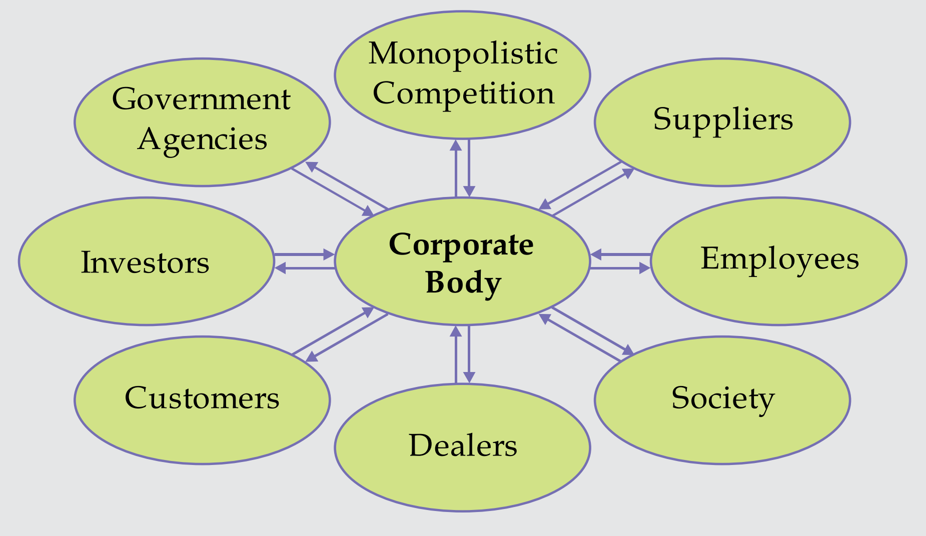

Fig. : *Corporate Stakeholders*

The CEO with corporate executive's assistance has to make maximum efforts to satisfy all types of stakeholders.

There are three broad categories of corporate and each one has its own method of governance and fair-unfair practices:

1. **Private Corporations :** Some companies are very tightly held by individuals or family members. Both small and big companies are in this category and managed under authoritative leadership. There will be many types of unfair practices pertaining to statutory payments, disparity in payments, hiring-firing and opportunism. There is heavy emphasis to business and profits and no emphasis to CSR related activities.
2. **Public Corporations :** This category consists of state owned, central government owned public sector enterprises, some of the very old private companies running on the uses of Public Sector Enterprises. This is almost opposite type of private corporations. Lack of accountability more concern for employee welfare and lack of competitiveness in product and marketing. There will be many cases of bribery and unethical practices in various corporate related activities.
3. **Professional Corporations :** There are MNCs and other private and public limited companies where promoter's and other directors are all professionally qualified and competent. They are competent in their industry, do-well, grow well and take care of the CSR to the maximum possible extent. The morale of employees is very high and job satisfaction is yet to achieve. Indian corporate are yet to achieve success in flextime working. This is due to the facts that Indians follow discipline under regulations of rules.

Advantages of CSR

There are many tangible and intangible benefits due to CSR activities of the companies. While saying this we must appreciate that only profit making companies can take up social services which are of voluntary nature.

Some of the advantages are as follows :

(i) It displays care and concern and fellow feeling towards the society we live in.

(ii) The owners of the company earn huge profits from a particular state/region or nation. It becomes their duty to do something in return as gratitude.

(iii) The executives who undertake CSR activities are held very high in public opinion and are honoured by the society and government.

(iv) It is not possible for government alone to improve the standard of living of people. If corporate also collaborate the living conditions of the people improves.

(v) The corporate image improves and it helps to sell their products more and more.

The trend of CSR is a motivator to youngsters to take up such activities when they grow up to become executives or entrepreneurs.

Forms of Corporate Social Responsibility (CSR)

Among the organizational researchers who have tried from time to time to identify and describe the various forms of CSR, *probably the most established and accepted model of CSR which addresses the forms of CSR is the one called 'Four-Part Model of Corporate Social Responsibility' as proposed by Archie Carroll and subsequently refined later by Carroll and Buchholtz.* This model is depicted in the following Fig.

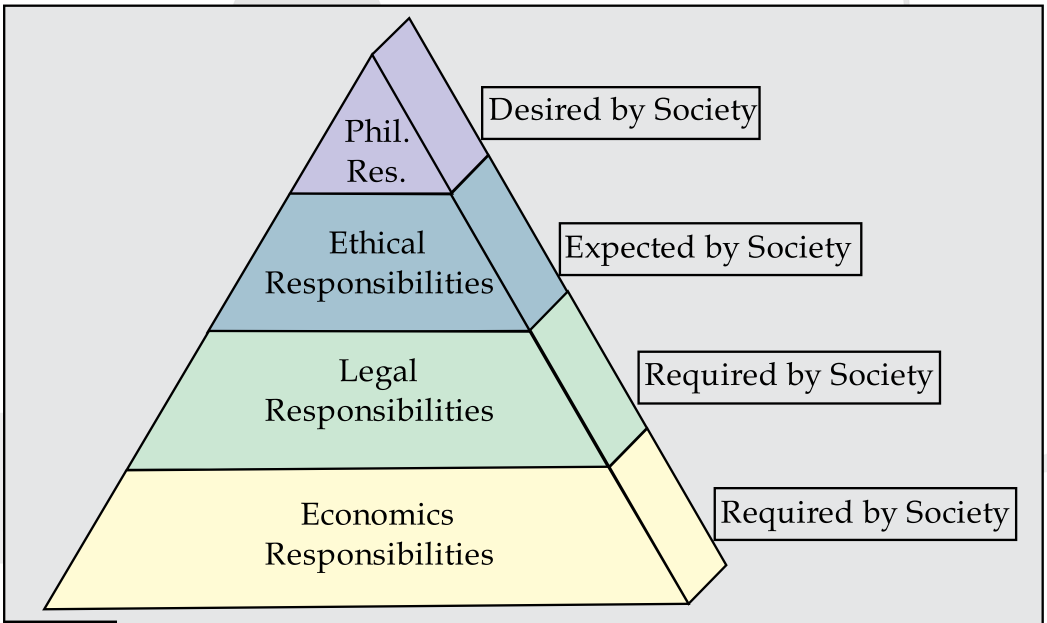

Fig. : ***Carroll's Four-Part Model of Corporate Social Responsibility***

> ***According to Carroll,*** *CSR is a multi-layer concept consisting of four inter-related aspects of responsibilities, namely, economic, legal, ethical, and philanthropic. He presents these different responsibilities as consecutive layers within a pyramid.*

Hence, he offers the definition of CSR in these words: "Corporate social responsibility encompasses the economic, legal, ethical, and philanthropic expectations placed on organizations by society at a given point in time."

Let us discuss, in brief, each of these four responsibilities in turn.

(i) **Economic Responsibility :** A corporation has to meet its economic responsibilities in terms of reasonable return to investors, fair compensation to employees, goods at fair prices to customers, etc. Thus, meeting economic responsibility is the first-layer of responsibility and also the basis for the subsequent responsibilities. The fact remains that meeting economic responsibility is must for all corporations to survive in the time.

(ii) **Legal Responsibility :** The legal responsibility of business corporations demands that businesses abide by the law of land and play by the rule of the game. Laws are the codification of do's and don'ts do's in the society.

Abiding by laws is the prerequisite for any corporation to be socially responsible. Corporate history is replete with instances where violation of laws disallowed corporations to run any longer. Enron, Union Carbide, Global Trust Bank, etc. are some of such illustrative corporate cases of social rejection and boycott.

(iii) **Ethical Responsibility :** These responsibilities refer to obligations which are right, just, and fair to be met by corporations. Just abiding by law, procedure, and rule and regulations does not make business conduct always as ethical or good. The conduct of corporations that go beyond law and contribute to social well being is called ethical.

Hence, corporations have an ethical responsibility to do, even going beyond law and rule and regulations, what proves good for the society. In other words, ethical responsibilities consist of what is generally expected by society from corporations over and above economic and legal expectations.

(iv) **Philanthropic Responsibility :** The Greek word 'philanthropy' means literally 'the love of the fellow human.' The use of this idea in business context incorporates activities that are, of course, within the corporation's discretion to improve the quality of life of employees, local communities, and ultimately society at large. Making donations to charitable institutions, building of recreational facilities for employees and their families, support for educational institutions, supporting art and support activities, etc. are the examples of philanthropic responsibilities discharged by the corporations. It is important to note that the philanthropic activities are desires of corporations, not expected by the society.